



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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### **12 VAC 30-70 –Methods and Standards for Establishing Payment Rates-Inpatient Hospital Care**

**Department of Medical Assistance Services**

November 30, 2005

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The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.G of the Administrative Process Act and Executive Order Number 21 (02). Section 2.2-4007.G requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. The analysis presented below represents DPB's best estimate of these economic impacts.

### **Summary of the Proposed Regulation**

The proposed amendments will replace the specific language in state regulations pertaining to the disproportionate share payment limit for hospitals with a direct reference to the federal Social Security Act.

### **Estimated Economic Impact**

Hospitals receive disproportionate share hospital (DSH) payments from Medicaid for serving a high percentage of Medicaid and uninsured patients. DSH payments help hospitals cover their uncompensated care costs. Under the 1993 Omnibus Budget Reconciliation Act, the amount of DSH payments a hospital can receive is limited to 100% of uncompensated costs. However, in 2000, the federal government allowed states through the Benefits Improvement and Protection Act to temporarily increase the DSH payment limit up to 175% of the uncompensated care costs for public hospitals for fiscal years 2004 and 2005. Consequently, these regulations were amended to reflect the changes in the federally established DSH limits.

The proposed changes will incorporate by reference the Section 1923(g) of the federal Social Security Act the disproportionate share payment limit for hospitals instead of amending the regulations to adopt the same limits every time a federal change occurs. This proposed change will automatically conform to the federal DSH limit changes preventing delay and avoiding costs associated with amending the regulations according to the rules established by the Administrative Process Act.

In addition, the proposed incorporation of the federal DSH limit by reference might enable the Commonwealth to claim approximately \$30 million in federal matching funds in the future. Thus, the main impact of the proposed change is to increase the Commonwealth's chances to claim up to \$30 million in federal funds in the future to supplement the Medicaid operating budget.

Even though no immediate economic impact is expected from this change, in the event that the Commonwealth draws additional federal matching funds, the net economic impact on Virginia's economy would likely be positive. The additional up to \$30 million in federal match would be a net injection into the economy without any offsetting effects somewhere else in Virginia. This increase in Medicaid operating budget would spill over to some of the Medicaid recipients by maintaining or enhancing services that would not otherwise be available. Improved services could also improve the overall health status of Medicaid recipients and produce some long-term cost savings.

## **Businesses and Entities Affected**

The proposed changes might affect some or all of Medicaid recipients and the two state teaching hospitals, depending on if the federal matching funds are materialized and the way they are spent.

## **Localities Particularly Affected**

The proposed changes are unlikely to affect any one locality more than others.

## **Projected Impact on Employment**

The proposed changes are not expected to result in any immediate economic impact. Thus, no direct impact on employment is anticipated. In the event that the Commonwealth is

able draw additional federal matching funds, the proposed changes would likely have an expansionary effect on the state economy creating a positive effect on demand for labor.

### **Effects on the Use and Value of Private Property**

The providers that might be affected are two public hospitals. Therefore, even if the Commonwealth is able draw additional federal matching funds, no significant effect on the use and value of private property is expected.

### **Small Businesses: Costs and Other Effects**

The proposed regulations might affect only two public teaching hospitals.

### **Small Businesses: Alternative Method that Minimizes Adverse Impact**

The proposed regulations are not likely to have direct impact on any small businesses.